

# FDIC State Profile

Summer 2005

## Tennessee

The rate of employment growth in Tennessee remains strong but lags the nation.

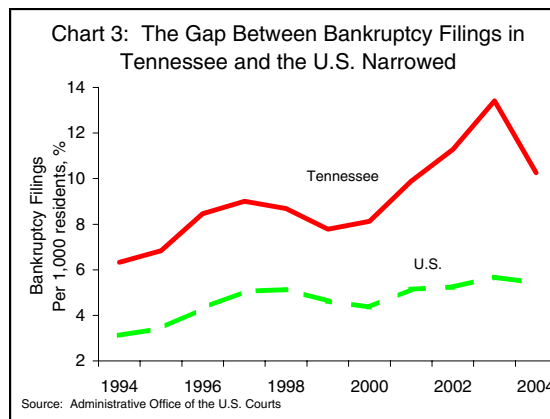
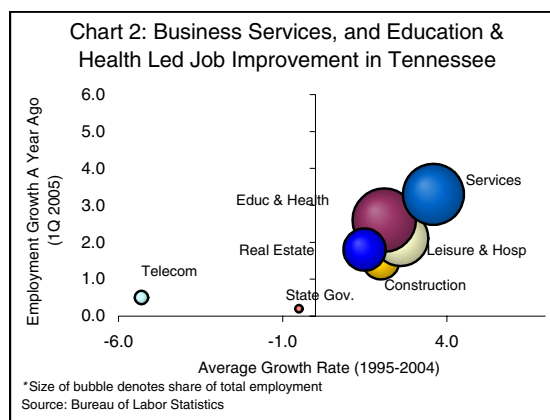
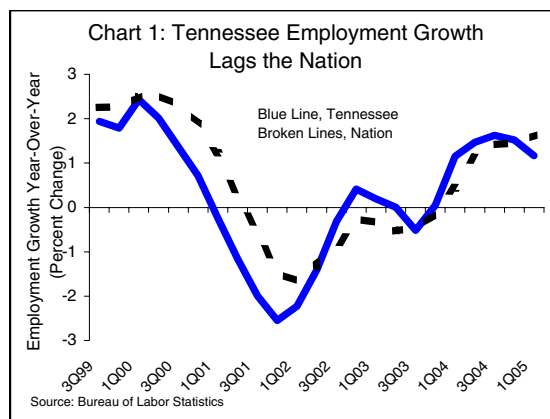
- Employment growth in Tennessee was relatively unchanged at 1.2 percent on a year-over-year basis in first quarter 2005, and lagged that of the nation (See Chart 1).
- Employment growth was strongest in construction, education and health, leisure and hospitality, and real estate, while job losses occurred in state government and telecommunications (See Chart 2).

Growth in manufacturing employment is widespread.

- Tennessee's manufacturing sector grew 0.4 percent on a year-over-year basis in first quarter 2005, the third consecutive quarterly gain, and the first such string of positive quarters in more than three years. Employment growth was the strongest in auto-related businesses, including transportation equipment and motor vehicle parts, and in the primary metals and wood product sub-sectors. In contrast, job losses occurred in the apparel, computer and electronics, and paper industries.
- The near-term prospects for manufacturing appear bright especially in **Memphis** where medical device manufacturers; Wright Medical, Medtronic Sofamor Danek, and Smith & Nephew, announced plans for plant expansions and additional hiring. Employment in the Memphis biomedical device industry has grown at almost three times the national rate since 1995, according to a local media source.

Military jobs in Tennessee may grow.

- Tennessee could experience a net gain of more than 1,000 jobs under the Department of Defense's recommendations for the next round of base realignments. Most of the gains would go to the Naval Support Activity in **Millington** and the Air Guard station at McGhee Tyson Airport in **Knoxville**. In contrast, Fort Campbell, the largest employer in Clarksville, and the Air Guard station at **Nashville's** International Airport are slated to lose jobs, although the losses at Fort Campbell are modest.



## State Profile

### Tennessee home prices rise modestly.

- Historically, Tennessee home prices increased at moderate rates compared to the national average, and that trend continued during first quarter 2005. A major factor in the state's moderate home price appreciation is that demand has not exceeded supply, thus limiting highly competitive bidding which contributed to rapid price escalation in other areas of the country. Growth in income coupled with moderate increases in home prices helped the state to maintain a level of affordability above the national average.
- During the quarter home prices in Tennessee rose 5.4 percent compared with the national level of 12.5 percent. The **Knoxville** metropolitan area recorded the fastest home price appreciation in the state during the quarter at 6.9 percent, while the **Jackson** metropolitan area experienced the least at 1.2 percent. In its May 2005 release, the Greater **Nashville** Association of Realtors indicated that sales may continue to set records during the balance of the year because interest rates remain low.

### Recent bankruptcy reform could reduce the number of filings in the state.

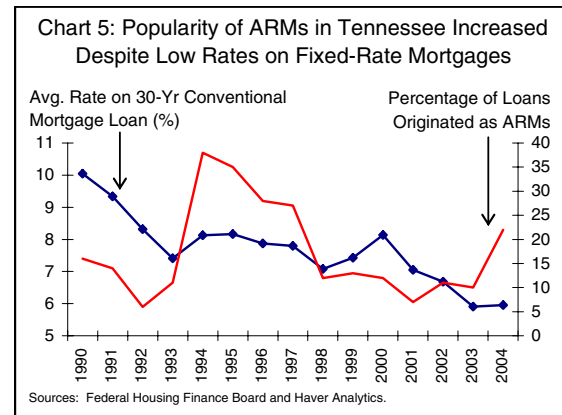
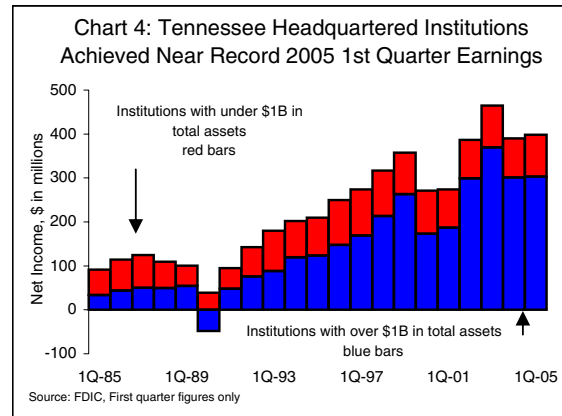
- The recently enacted Bankruptcy Abuse Prevention and Consumer Protection Act aims to restrict a debtor's ability to file under Chapter 7 of the Bankruptcy Code. Proponents believe that over the long term, the law will reduce the number of filings. Critics, however, think the new law encourages lenders to extend credit more freely, leading to increased consumer indebtedness and, ultimately, more bankruptcy filings.
- The per capita bankruptcy filing rate in Tennessee was 10.3 per 1,000 residents in 2004, the highest of all states and twice the national average. However, the rate has slowed in recent quarters, while the gap between the state and national rate narrowed (See Chart 3). Bankruptcy filings may increase prior to the law's October 17<sup>th</sup> effective date, as debtors already considering bankruptcy rush to take advantage of the more lenient existing rules.

### Insured institutions in Tennessee reach near record earnings.

- Net income totaled \$398.7 million in first quarter 2005 among state-headquartered institutions. The state's largest institutions (those with over \$1 billion in assets) accounted for nearly 80 percent of profits (See Chart 4). Despite the flattening yield curve environment, the state's median return on assets ratio remained relatively unchanged from one year ago at 1 percent.

### Adjustable-rate mortgages (ARMs) increased in 2004.

- In 2004, ARMs made up 22 percent of all loans originated in Tennessee. Although below the national average of 35 percent, the current level of ARMs more than doubled from one year ago and is near the previous peak of 27 percent reached in 1997 (See Chart 5). Should interest rates rise, these borrowers may be more vulnerable to increased debt service requirements.



## Tennessee at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.2%	0.2%	-2.2%	-0.2%
Manufacturing (15%)	0.4%	-2.0%	-3.1%	-8.5%	-4.8%
Other (non-manufacturing) Goods-Producing (5%)	1.9%	2.1%	-1.1%	-5.7%	-4.6%
Private Service-Producing (65%)	1.8%	1.7%	1.1%	-1.2%	1.3%
Government (15%)	-1.0%	1.9%	0.3%	1.9%	0.6%
Unemployment Rate (% of labor force)	5.9	5.4	5.5	5.1	4.3

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	5.1%	3.8%	3.5%	4.4%
Single-Family Home Permits	0.8%	27.0%	3.0%	3.1%	-5.2%
Multifamily Building Permits	-54.9%	200.4%	-32.5%	-43.8%	-15.3%
Existing Home Sales	8.6%	17.0%	18.1%	0.7%	4.9%
Home Price Index	5.4%	3.6%	3.4%	2.9%	5.2%
Bankruptcy Filings per 1000 people (quarterly level)	2.60	2.67	2.88	2.75	2.59

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	208	210	210	213	220
Total Assets (in millions)	139,930	120,591	117,897	105,366	93,259
New Institutions (# < 3 years)	16	13	15	20	23
Subchapter S Institutions	43	39	36	34	31

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.83	2.15	2.67	2.84	2.86
ALLL/Total Loans (median %)	1.30	1.35	1.36	1.32	1.29
ALLL/Noncurrent Loans (median multiple)	2.57	2.38	1.74	1.60	1.53
Net Loan Losses / Total Loans (median %)	0.15	0.17	0.19	0.21	0.18

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.69	9.40	9.33	9.13	9.33
Return on Assets (median %)	0.98	0.99	0.98	1.00	1.00
Pretax Return on Assets (median %)	1.42	1.45	1.46	1.46	1.42
Net Interest Margin (median %)	4.33	4.37	4.32	4.34	4.30
Yield on Earning Assets (median %)	7.26	7.23	7.38	7.59	7.97
Cost of Funding Earning Assets (median %)	2.84	2.81	2.98	3.19	3.60
Provisions to Avg. Assets (median %)	0.23	0.25	0.24	0.26	0.22
Noninterest Income to Avg. Assets (median %)	0.82	0.80	0.81	0.80	0.83
Overhead to Avg. Assets (median %)	3.23	3.26	3.20	3.13	3.10

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	66.8	66.7	65.2	65.9	66.5
Noncore Funding to Assets (median %)	22.9	21.2	20.9	20.5	20.6
Long-term Assets to Assets (median %, call filers)	12.2	14.8	12.3	12.0	12.6
Brokered Deposits (number of institutions)	56	51	36	32	24
Brokered Deposits to Assets (median % for those above)	3.6	1.9	3.3	3.3	2.0

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	69.2	74.8	77.0	83.0	78.6
Commercial Real Estate	212.3	204.8	184.9	167.5	157.2
<i>Construction &amp; Development</i>	54.3	43.1	39.7	38.6	39.6
<i>Multifamily Residential Real Estate</i>	5.4	4.8	3.9	4.0	2.6
<i>Nonresidential Real Estate</i>	127.9	129.8	121.8	109.6	98.7
Residential Real Estate	223.8	224.2	231.3	233.2	240.6
Consumer	59.6	64.9	72.9	81.3	91.2
Agriculture	15.6	15.4	13.8	14.4	15.1

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Memphis, TN-MS-AR	54	25,949	< \$250 million	150 (72.1%)
Nashville-Davidson--Murfreesboro, TN	53	23,141	\$250 million to \$1 billion	51 (24.5%)
Knoxville, TN	28	8,693	\$1 billion to \$10 billion	4 (1.9%)
Chattanooga, TN-GA	27	6,310	> \$10 billion	3 (1.4%)
Kingsport-Bristol-Bristol, TN-VA	26	3,675		